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Energy Sector

Crescent Point Energy Corp. (CPG) reported a solid set of second quarter results, including production of 167,218 barrels of oil equivalent per day (boed) slightly ahead of the expectations. The focus in the quarter was on completions rather than new drilling, though that's already changing in the third quarter. The company spent only $51.4 million of its 2016 $950 million capital program. CPG reported an impressive $280 million in free cash flows (FCF) generated in the quarter, on the back of modest capital expenditures in the past three months and further cost reductions. A portion of the FCF earned in the quarter was spent on tuck-in acquisitions at Flat Lake and in SE Saskatchewan. CPG achieved strong oil netback of $32, with hedges, relative to an average selling price of $42.25/bbl. The company added to hedges modestly in the quarter, having hedged so far 45% of its oil production for the rest of the year and 29% for the first half of 2017. Operating costs totaled $331 million in the first half of 2016, about $40 million lower than its estimate. CPG said it expected average operating expenses to be about $11.40 per barrel of oil equivalent (boe) for 2016. The company maintained its full-year capital budget of $950 million and production forecast of 165,000boed. It said it would revisit the numbers in the second half of the year.

Northland Power Inc. reported strong second quarter results and significant progress on offshore wind construction. "Northland continues to deliver on advancing our $6 billion construction portfolio on time and on budget," said John Brace, chief executive officer. "We again saw an increase in our gross profit, adjusted Earnings Before Interest Tax Depreciation and Amoritization (EBITDA) and free cash flow financial results. We achieved significant milestones on both offshore wind projects, continuing at a rapid pace with over 90% of the total wind turbines installed at Gemini and installation of the offshore substation for Nordsee One successfully completed last month. These results demonstrate our ability to balance strong returns with steady growth." Sales and gross profit increased by 6% and 21%, respectively over the same quarter in 2015, primarily due to contributions from the Grand Bend wind farm, which reached commercial operations in April, 2016, the completion of additional ground-mounted solar facilities and other positive contributions from operating facilities. Adjusted EBITDA increased by 14% over the same period in 2015, to $103.9 million, primarily driven by positive contributions from Northland's operating facilities, including results from Grand Bend and the additional ground-mounted solar facilities. Management continues to reiterate 2016 adjusted EBITDA and free cash-flow-per-share guidance. Construction continues to progress on the company's 600MW North Sea Gemini project, with the project remaining on time and within budget. So far, 138 wind turbines, representing over 90% of the total wind turbines, have been installed, with 105 turbines producing power and earning pre-completion revenues. Installation of the wind turbines will continue throughout 2016. Full commercial operations are expected by mid-2017. Nordsee One, the company's other 322MW North Sea project, is also progressing on time and within budget. Installation of all 54 foundation monopiles and transition pieces was achieved in April, 2016. In July, 2016, installation of the offshore substation was successfully completed. Installation of the in-field cables continues to progress well. Wind turbine production is continuing, with installation expected to commence in early 2017. Full commercial operations are expected by the end of 2017. Grand Bend declared commercial operations on April 19, 2016, with all 40 wind turbines producing revenues and operating as planned. On July 12, 2016, Northland's board of directors announced that it has commenced a review of strategic alternatives to further enhance the company's growth, shareholder value and ability to capitalize on a growing pipeline of clean energy infrastructure development opportunities. Northland does not intend to provide continuing updates on this review until its completion unless further disclosure is otherwise required.

Transalta Renewables Inc. reported second quarter 2016 comparable EBITDA of $89 million, an increase of $36 million over the same period in 2015, primarily due to the acquisition of economic interests in the Australian and Canadian Assets which occurred in May 2015 and January 2016, respectively. Comparable cash available for distribution (CAFD) totaled $38 million, a decrease of $1 million in the quarter compared to the same period last year. Year-to-date, comparable EBITDA was $203 million and comparable CAFD was $120 million compared to $108 million and $71 million, respectively, for the same period in 2015. "TransAlta Renewables delivered another solid quarter with strong performance from all assets. Our performance is tracking toward the upper end of the guidance we provided for 2016," said Brett Gellner, President of the Company. "During the quarter we also re-contracted the 10 MW Akolkolex hydro facility for 30 years with BC Hydro and executed against our plan of raising $400 to $600 million in project financing by closing a $159 million bond secured by our New Richmond wind facility located in Quebec."

Financial Sector

Brookfield Asset Management Inc. (BAM) reported second quarter results which exceeded expectations in terms of funds from operations (FFO) generation. Bruce Flatt, CEO of Brookfield, stated, "Our diversified real asset strategies are performing well and we continue to see growing demand from investors, as evidenced by the closing on a record $27 billion of capital for our most recent series of flagship funds. We deployed $16 billion of capital during the last twelve months, and we expect to see continued opportunities for investment." FFO for the second quarter of 2016, which excludes unrealized valuation gains totaled $637 million or $0.62 per share, and was $2.8 billion on a last twelve month basis. Fee related earnings increased 50% to $191 million, from strong client inflows over the last twelve months. FFO from invested capital increased by 56% and included the contribution from new investments across BAM's portfolio and operating improvements. The company sold interests in core office properties and a UK energy distribution business, generating $123 million of disposition gains. This compares to realized disposition gains of $171 million in the prior period. BAM declared a quarterly dividend of US$0.13 per share (representing US$0.52 per annum). BAM completed fundraising for its most recent series of flagship private funds. Nearly 250 clients committed to these three funds, which represent $27 billion of investible capital. BAM has already invested more than half of its $9 billion property fund and has commenced deploying capital in its $14 billion infrastructure fund and $4 billion private equity fund. The company also continues to raise four additional funds, including an open-ended real estate fund and three niche funds, targeting $3 billion of client commitments. Fee bearing capital increased by 15% to $108 billion over the last twelve months. During the quarter, BAM completed the launch of Brookfield Business Partners LP, its fourth listed partnership, which is now a key holding of our Portland Value Fund mandates. In BAM's private equity operations, the company expanded its global facilities management operations with two tuck-in acquisitions and has built a record backlog in our constructions operations.

Crown Capital Partners Inc. reported revenue of $5.0 million versus our estimate of $3.8 million (consensus $4.0 million). The primary difference versus forecast was due to a pair of amendment fees received from CRH Medical Corporation and Distinct Infrastructure Group Inc. Crown received a $225,000 fee from CRH and a $250,000 fee from Distinct. Revenue strength translated into a strong bottom line with an earnings per share (EPS) of $0.18 versus both our and consensus estimates of $0.13. Accordingly, Crown's book value per share rose to $10.68 from $10.56 in the prior quarter. Crown ended the quarter with a cash balance of $36 million (approx. $3.6/share). Management continues to view the current market conditions as favorable and noted that the transactional pipeline remains robust. Crown continues to expect record deployments in 2016, deploying the vast majority of its available cash.

Fifth Street Floating Rate Corp. reported core earnings of $0.21/share, with net investment income driven by elevated professional fees related to the preparation of Fifth Street's annual meeting, but the level of fees should revert back to normal next quarter. Net Asset Value fell about 2% quarter/quarter to $10.99/share, largely the result of specific credit write-downs. Net originations increased 6% quarter over quarter, pushing leverage slightly above management's target range (0.80x-0.90x). On balance, it was a relatively in-line quarter, though Fifth Street continues to work through some challenged credits.

HSBC Holdings Plc bought back 886,944 shares on the London Stock Exchange at an average price of £5.3927 on August 9th, according to a statement to Hong Kong stock exchange.

Prudential Plc reported a strong set of results, with earnings of £2,059 million, 10% or £179 million ahead of company collected consensus. A number of one-off actions added net £105 million to earnings, so the underlying beat was closer to c4% beat versus company collected consensus. Asia was the driver of the strength, beating consensus by c2% and growing earnings by 15% Year on Year (YoY). Asia is the structural growth driver of the company in our view. M&G Investments came in modestly ahead (and outflows improved), while U.S. was in line with estimates. Total Asia earnings increased 15% YoY to £743 million, with life insurance earnings increasing 17% YoY to £682 million and asset management earnings were flat at £61 million. Free surplus generation increased 15% to £419 million while new business profit increased 20% to £824 million. Sales in Hong Kong remained the key driver, increasing 58% YoY, while Chinese sales also increased 59%. Elsewhere, Malaysia sales increased 10%, while sales declined in Singapore (-11% - due to discontinuing universal life product) and 33% decline in Indonesia in a tough market environment. UK life insurance earnings were significantly ahead of expectations at £473 million, £120 million ahead of consensus. The earnings benefited from £140 million of management actions, including £66 million from a longevity reinsurance deal (£61 million in first half 2015), and £74 million from actions to optimize its UK balance sheet for Solvency 2. The longevity deals are lumpy, but will reoccur in the future so cannot be considered completely one-off in our view. Furthermore, it is good business to ensure the in-force is managed proactively and all UK life companies will have various degrees of management actions going forward. U.S. earnings were in line with estimates at £888 million, flat YoY, as the company managed the combined headwinds of lower variable annuity (VA) sales (-20% YoY) and lower interest rates. Asset Management - M&G reported 1st half earnings of £225, slightly ahead of consensus (+1%). M&G has seen significant outflows in 2015 and this trend continued in 1st half 2016. M&G saw net outflows of £7bn from its third party investments. The large outflows primarily have come from M&G's flagship Optimal Income fund. However, the trend reversed on Retail outflows from M&G in June with £490 million retail net inflows in Optimal Income fund. However, the impact of £7 billion net outflows over H1 2016 was more than offset by positive market movements of £10.2 billion, increasing M&G third party Assets Under Management (AUM) by £3.2 billion to £129.6 from £126.4 billion.

Royal Bank of Scotland Plc (RBS) attracted US$15 billion of investor orders for its US$2.65 billion (£2 billion) Additional Tier 1 bond on Wednesday, the first AT1 from a UK bank since the Brexit vote in June. The deal, rated B by S&P and BB- by Fitch, fulfils RBS's £2 billion target for AT1 issuance in 2016. The deal launched at 8.625%. RBS filed for the deal on Monday and held meetings and calls with investors in New York and London on Tuesday. (Source Reuters)

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Standard Chartered Plc began marketing U.S. dollar-denominated Additional Tier 1 securities on Thursday, just a day after RBS smashed open that market and drew US$15 billion in demand for its issue (as noted above). Price guidance on Standard Chartered's AT1 perpetual non-call April 2022 bonds has been announced at around 8%. Standard Chartered's bonds will convert into equity if the bank's Common Equity Tier 1 ratios fall below 7%. Standard Chartered, Bank of America Merrill Lynch, Deutsche Bank, Goldman Sachs, Societe Generale and UBS are joint lead managers. (Source: Reuters)

Activist Influenced Companies

Pershing Square Holdings Ltd. announced the sale of its Canadian Pacific stake. Perishing Square said it intends to use the proceeds of sale to fund one or more new investments. Bill Ackman intends to continue to serve on Canadian Pacific's board of directors until the next annual meeting. Pershing Square has not disclosed yet the gains it realized on its CP Rail investment, however it is safe to assume it exceeds 200%, given an average cost per share of $56 at the date of the initial announcement and a current $191 price.

Zoetis Inc., a U.S.-based animal health company that discovers, develops, manufactures and markets veterinary vaccines and medicines, has acquired Scandinavian Micro Biodevices A/S, a Denmark-based designer and manufacturer of diagnostic cartridges based on micro fluidic technology, for $80 million.

Canadian Dividend Payers

BCE Inc. announced last Monday that it will acquire all the equity it does not own in Q9 Networks Inc. from the investor group comprising Ontario Teachers' Pension Plan (OTPP), Providence Equity Partners (Providence) and Madison Dearborn Partners (Madison). BCE currently owns a 35.4% stake in Q9 and will acquire the remaining 64.6% from the aforementioned investors for $675 million. The transaction is expected to close before the end of 2016. This investor group originally acquired Q9 in 2012. The transaction at the time of announcement was valued at $1.1 billion, with BCE paying $185 million, while the other partners contributed $430 million for the remaining equity stake (est. a 14x Enterprise Value/ EBITDA transaction multiple). Q9 is a provider of outsourced data centre solutions such as hosting, co-location and cloud services. We believe the objective here is to strengthen BCE's capabilities in this space in the face of growing competition from both Canadian and US operators. Apart from the transaction value, no additional financial information is provided.

Valeant Pharmaceuticals International Inc. reported second quarter results that were a slight miss on the bottom line. Revenue for the quarter was $2.4 billion, slightly lower than consensus of $2.5 billion. Total U.S. sales were $1.5 billion, down (17.2%) compared to the same period last year. The pro forma revenue decline was (17.3%) in Q2. We believe the company's agreement with Walgreens continues to provide headwinds. Together with its partner, Valeant has implemented a new prior authorization program effective August 4. Q2 EPS was $1.40, lower than consensus at $1.50. While Q2 challenges were as expected, we do note that management is making progress turning around the business. Valeant has identified assets it values at ~$8 billion as possible divestitures, and also outlined a plan to pay down ~$5 billion of debt over the next 18 months through FCF generation and non-core asset sales. Nonetheless, we believe that new CEO Joseph Papa must continue to build credibility during the early stages of his tenure, and investor confidence can only be fostered through execution and delivery of targets. We remain just holders of debt, not equity.

Global Dividend Payers

Nothing new to report.

Economic Conditions

Nothing new to report.

Financial Conditions

The Reserve Bank of New Zealand cut rates 25 basis points down to 2% and maintains an easing bias. The New Zealand central bank says that "further easing will be required to ensure that future inflation settles near the middle of the target range".

The U.S. 2 year/10 year treasury spread is now .80% and the UK's 2 year/10 year treasury spread is .38% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above their costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.45% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 4.7 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are finally supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now in a more normal range of 4-7 months.

The VIX (volatility index) is 11.67 (compares to a post-recession low of 10.7 achieved in early June) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

And finally ...... we share the pride and delight for Penny Oleksiak, her family and coach for becoming became Canada's sensation at the Olympics. Not only did the 16-year-old Toronto swimmer win her fourth medal of these Rio Games, but her gold winning Olympic record in last night's 100-metre freestyle and her smile on realizing her success, are a lovely way of being reminded of what the 'Olympic spirit' is all about.

Mutual Funds

Portland Investment Counsel Inc. currently offers 7 Mutual Funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Income Fund
- Portland Global Banks Fund
- Portland Global Dividend Fund
- Portland Value Fund

Private/Alternative Products

Portland also currently offers private/alternative products:

- Portland Focused Plus Fund LP
- Portland Focused Plus Fund
- Portland Private Income Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Advantage Plus Funds
- Portland Private Growth Fund
- Portland Global Aristocrats Plus Fund

We want to share our insights with you and welcome your feedback. Our website has the latest, as well as archived videos, company profiles, and press articles. Please visit us at www.portlandic.com.

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